

**BEFORE THE TENNESSEE REGULATORY AUTHORITY AT
NASHVILLE, TENNESSEE**

April 7, 2003

IN RE:

**PETITION OF KENTUCKY UTILITIES
COMPANY FOR AN ORDER AUTHORIZING
THE ISSUANCE OF SECURITIES AND THE
ASSUMPTION OF OBLIGATIONS**

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**DOCKET NO.
03-00146**

ORDER APPROVING DEBT ISSUANCE

This matter came before Chairman Sara Kyle, Director Pat Miller, and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on March 17, 2003, for consideration of the *Petition* filed by Kentucky Utilities Company ("Kentucky Utilities" or the "Company") on February 25, 2003, in which Kentucky Utilities requests that the Authority approve, pursuant to Tenn. Code Ann. § 65-4-109, the issuance of certain securities and assumption of obligations relating thereto.

Requirement of and Standard for Authority Approval

Tenn. Code Ann. § 65-4-109 provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

The Petition

The *Petition* states that Kentucky Utilities is a Virginia corporation with its business offices in Lexington, Kentucky which provides retail electric service to five customers in Tennessee. Kentucky Utilities is therefore subject to regulation and supervision by the Authority pursuant to Tenn. Code Ann. § 65-4-101, *et seq.* Kentucky Utilities is a wholly owned subsidiary of LG&E Energy, which is owned indirectly by Powergen plc, which is an indirect subsidiary of E.ON. E.ON North America Inc. ("E.ON NA") is also a subsidiary of E.ON, and Fidelia Corporation ("Fidelia") is a finance company subsidiary of E.ON NA.

In its *Petition*, Kentucky Utilities requests Authority approval to borrow from Fidelia an amount not to exceed \$250,000,000 during the 2003 calendar year by issuing fixed rate notes to Fidelia with final maturities between two and twelve years. The Company anticipates issuing notes totaling \$100,000,000 as soon as possible following receipt of all required regulatory approvals, with the remaining amount to be issued later in 2003. The *Petition* states that such borrowings would occur only if the interest rate on the loan would result in an equal or lower cost of borrowing than the Company could obtain in a loan from E.ON or in the capital markets on its own. The interest rate on the notes will be set at the time of issuance and would depend on the maturity of the notes.

According to the *Petition*, Kentucky Utilities proposes to use the funds it borrows for the purpose of reducing its existing and anticipated short-term debt. The *Petition* states that Kentucky Utilities has authority from the Securities and Exchange Commission ("SEC") to engage in unsecured long-term loan transactions within the E.ON holding company system. Kentucky Utilities will seek authority from the SEC to engage in secured loan transactions with its affiliates, and if the SEC grants such authority, the debt will be secured by either a

subordinated lien on the Company's personal property or a lien on its accounts receivable. If the authority is not granted, the debt will be unsecured.

The *Petition* states that as of November 30, 2002, Kentucky Utilities had short term debt of \$112,100,000, which would be expected to increase significantly by the end of 2003 unless alternative financing is obtained. The *Petition* further states that long-term interest rates are at or near ten year lows, which provides the Company with an opportunity to reduce its exposure to the risk of rising interest rates embedded in its current portfolio of floating rate short-term debt. In addition, the use of inter-company loans allows Kentucky Utilities to convert to fixed rate debt more rapidly and minimizes the cost of doing so.

In addition, the *Petition* states that Kentucky Utilities proposes to use the loans as replacement financing for existing long-term debt, as further described in the *Petition*. The Company also proposes to use the loans to finance its acquisition of combustion turbines at the Trimble County generating station, contingent upon the Company's being granted a certificate of public convenience and necessity to acquire those turbines by the Kentucky Public Service Commission ("KPSC"). The *Petition* also states that Kentucky Utilities proposes to use the loans to finance various costs and expenditures required under an Amended Pollution Control Compliance Plan approved by the KPSC.

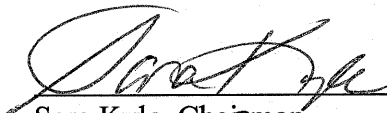
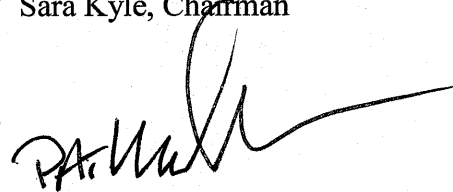
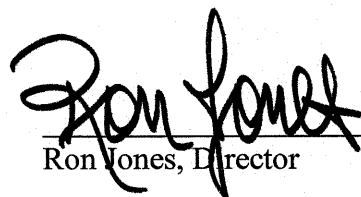
Upon consideration of the *Petition*, and of the entire record in this matter, the panel voted unanimously to approve the *Petition* at the March 17, 2003 Authority Conference.

IT IS THEREFORE ORDERED THAT:

1. Kentucky Utilities Company is authorized to issue certain securities and assume certain debt obligations relating thereto in an aggregate principal amount not to exceed \$250,000,000 in the manner set forth in its *Petition*.

2. The authorization and approval given hereby should not be used by any party, including, but not limited to, any lending party, for the purpose of inferring an analysis or assessment of the risk involved to a purchaser of any securities issued as described in the *Petition* of Kentucky Utilities. Nothing contained herein creates or is intended to create any liability on the part of the Tennessee Regulatory Authority or the State of Tennessee or any political subdivision thereof for the transaction approved herein.

3. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from and after the date of this Order.


Sara Kyle, Chairman
Pat Miller, Director
Ron Jones, Director